

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Santa Cruz Valley Unified School District No. 35

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 27, 2009

Governing Board
Santa Cruz Valley Unified School District No. 35
1374 West Frontage Road
Rio Rico, AZ 85648-2007

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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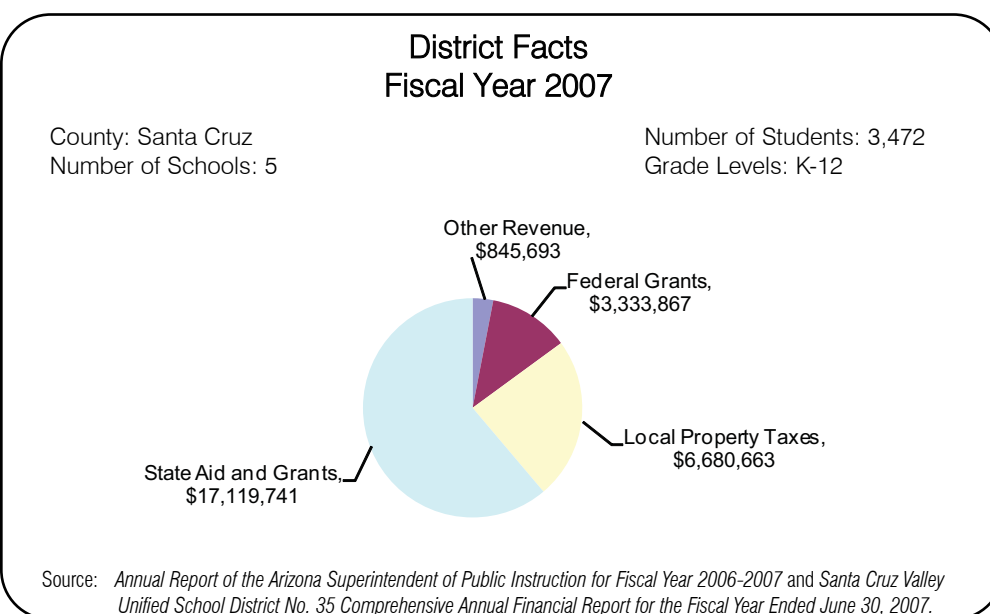
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INTRODUCTION

Santa Cruz Valley Unified School District No. 35 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$27.9 million it received in fiscal year (FY) 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District should improve the accuracy of its accounting records and financial reporting

Over \$213,000 of the District's bank balance was uninsured and uncollateralized at June 30, 2007.

The District's Governing Board depends on accurate financial information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly recorded. However, the District did not fully accomplish these objectives. Specifically, the District did not record the activity of the English Language Learner Compensatory Instruction Fund in the proper fund, and the District inappropriately recorded over \$14,500 of capital expenditures in the Maintenance and Operation Fund. Additionally, the District had over \$213,000 of its bank balance that was uninsured and uncollateralized as of June 30, 2007, at which date Federal Deposit Insurance Corporation (FDIC) coverage was \$100,000 per depositor. Further, expenditures for capital lease interest and principal payments were not recorded in the correct object codes. Finally, at June 30, 2007, the District's New School Facilities Fund had a deficit fund balance of more than \$96,000, and the District's reconciliation of cash to the County School Superintendent's records included approximately \$8,000 of unreconciled differences.

Recommendations

To help improve the accuracy of its accounting records and financial reporting, the District should:

- Ensure that all financial transactions are recorded in accordance with the USFR Chart of Accounts.
- Ensure that all district monies are secure by obtaining a collateralization agreement with its bank for all amounts on deposit in excess of amounts covered by the FDIC. The limit on FDIC coverage increased from \$100,000 to \$250,000 per depositor on October 3, 2008, and is in effect through December 31, 2009.
- Promptly investigate and resolve all differences noted in reconciling its records to the County School Superintendent's records.
- Avoid fund deficits by ensuring adequate cash is available in cash-controlled funds before authorizing expenditures from those funds.

FINDING 2

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective, as its absences reported to ADE did not always agree to its computerized attendance system. Additionally, the District did not accurately calculate student absences and did not have a procedure in place to document student late arrival times at one campus. Further, the District did not ensure that student membership information in its computerized attendance system was supported by student entry and withdrawal information in teachers' attendance registers. Finally, the District did not always ensure that students withdrawn for having ten consecutive unexcused absences were only counted in membership through the last day of attendance.

The District may not have received the appropriate amount of funding, since the District did not report membership and absences correctly.

Recommendations

To help ensure the accuracy of its student attendance records, the District should:

- Assign a second employee to verify that the amounts reported to ADE for membership and absences agree to the information in the District's computerized attendance system.
- Calculate absences for elementary and junior high students, as follows:
 - For students whose attendance is based on half days, students in attendance for less than one-half of the day should be counted as absent for 1 full day; students in attendance for at least one-half day, but less than three-quarters of a day should be counted as absent for one-half day; and students in attendance for at least three-quarters of a day should be counted in attendance for a full day.
 - For students whose attendance is based on quarter days, students who attend class for less than three-quarters of the day should be counted absent for each quarter of the day not in attendance. Students in attendance for at least three-quarters of the day should be counted in attendance for a full day.

- Implement procedures at all the District's schools to document students' late arrivals and early departures, and use such records to adjust absences as needed.
- Calculate absences for high school students in accordance with the chart provided in ADE's *Instructions for Required Reports*. Report absences in terms of full or partial days rather than minutes.
- Ensure that teachers record evidence of enrollment and withdrawal in their manual attendance records, if such records are used. Assign an employee to compare membership information in the District's computerized attendance system to entry and withdrawal dates in teachers' attendance registers.
- Withdraw students with ten consecutive unexcused absences as of the first day of nonattendance. If the District's computerized attendance system calculates membership through the withdrawal date, withdrawals should be entered as of the last day of attendance.

FINDING 3

The District should improve its controls over capital assets and stewardship items

The District has invested a significant amount of money in its capital assets and stewardship items. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective, as the District had not taken a physical inventory of capital assets and stewardship items in the past 3 years. Also, the District did not reconcile capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list. As a result, the beginning accumulated depreciation balance for fiscal year 2007 did not agree to the ending balance for fiscal year 2006 by more than \$450,000. Additionally, the District did not correctly calculate depreciation expense and accumulated depreciation for numerous assets based on the assets' useful lives using the District's depreciation method. Finally, the District did not include land costing \$350,000 purchased by the Arizona School Facilities Board on the District's behalf on the capital assets list and did not classify numerous assets in the proper category on the capital assets list, and items on the stewardship list were not always tagged.

The District did not accurately account for or control its capital assets and stewardship items.

Recommendations

To ensure that its capital assets and stewardship lists are accurate and complete, the District should:

- Conduct a physical inventory, in accordance with the instructions in the USFR §VI-E, that includes all equipment with a unit cost of \$1,000 or more at least once every 3 years. Reconcile the results of the inventory to the capital assets and stewardship lists.
- Help ensure that current-year acquisitions are properly included on the capital assets list and that beginning asset balances are accurately carried forward from the prior year by reconciling capitalized acquisitions to capital expenditures by fund and the current year's list to the previous year's list. Investigate and resolve any differences noted immediately.
- Calculate depreciation expense and accumulated depreciation based on each asset's historical cost, useful life, residual value, and the appropriate depreciation method.

Instructions for performing a physical inventory of capital assets and stewardship items are listed on USFR pages VI-E-8 and 9.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital assets additions to capital expenditures and the current year's capital assets list to the previous year's list.

- Include all land, buildings, and related improvements, and equipment with a cost of \$5,000 or more and a useful life of 1 year or more on its capital assets list, by appropriate asset category. If capital assets are acquired by donation or purchased on behalf of the school district, the District should include the assets on the capital assets list at the fair market value of the asset at the date of donation or transfer of title.
- Ensure that all capital asset and stewardship items are tagged, or otherwise marked with an identifying number such as a serial number, and that such tag numbers are accurately recorded on the capital assets and stewardship lists.

FINDING 4

The District should strengthen controls over competitive purchasing and credit card expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. It is also essential that the District follow procedures designed to help ensure that its credit card purchases are appropriate. However, the District did not have adequate controls over competitive purchasing and credit card expenditures. Specifically, the District's written determination that the use of competitive sealed bidding was either not practicable or not advantageous did not include all services that it procured through requests for proposals (RFP). Additionally, when the RFP process was used, documentation was not always prepared and maintained to support the award of the contract. Finally, the District's Governing Board had not adopted credit card policies, and the policies established by district management addressed the use of only one of the District's credit cards.

The District did not have Governing Board-approved policies for use of district credit cards.

Recommendations

To help strengthen controls over competitive purchasing and credit card expenditures, the District should ensure that it complies with the School District Procurement Rules and establish appropriate policies and procedures for all expenditures. Specifically, the District should document the Governing Board's justification for not using invitations for bids before procuring goods or services through the RFP process. Such justification should include why the use of competitive sealed bids was either not practicable or not advantageous for the specified goods or services. Additionally, when the RFP process is used, the District should document its evaluation of the proposals received based on the criteria in the RFP and the reason for awarding the contract to the selected vendor. Finally, the Governing Board should establish formal, written policies governing the use of all credit cards and ensure that employees authorized to use district credit cards are aware of such policies. At a minimum, the policies should specify purposes for which the cards may be used, dollar limits for charges, and require an effective accounting system to account for and control the cards.

School District Procurement Rules describe procedures on how to appropriately use competitive sealed proposals in *Arizona Administrative Code* R7-2-1041.